**Memphasis Limited**
**ABN 33 120 047 556**
Financial Year Ended 30 June 2017
**Appendix 4E: Performance Commentary**

## Highlights

Whilst Memphasys had a difficult year, it made great advances in developing its core technology and is now positioned well for the future.

The year started with the change of name to Memphasys Limited from NuSep Holdings Ltd to reflect the renewed focus on high value biological separations using specialist membranes.

With respect Memphasys' lead program, Felix (formerly known as SpermSep), Memphasys successfully developed a novel, re-usable prototype cartridge for efficiently processing the most viable sperm for human IVF. This new cartridge design has been tested in-house with healthy human male ejaculates and is now ready for further testing and optimisation studies by Professor John Aitken's research team at the University of Newcastle.

Memphasys also achieved settlement of the long running litigation with PrIME Biologics Private Limited ("PrIME") and Pulau Manukan Ventures Labuan Ltd ("Manukan") shortly after reporting date. Some key outcomes were that Memphasys consented to Manukan's full rights and ownership over the Preference B Shares in PrIME and that PrIME and Manukan will no longer pursue any claim against Memphasys in relation to the SGD4.8m debt.

The background to the litigation has been provided in various ASX announcements released during the period.

## Business Activities

Memphasys' patented technology enables the efficient separation of high value proteins and cells from biological fluids. The technology enables separation by size and charge, utilising proprietary membranes and the application of electrophoresis.

Its lead program, Felix (formerly known as SpermSep), efficiently separates the best quality, least DNA damaged sperm from a semen sample in preparation for human IVF.

As announced on 4 April 2017 and 18 May 2017, Memphasys contracted Melbourne-based specialist medical device development partner, Hydrix, to develop the next generation cartridge for the Felix device. The new cartridges were made with a three-fold higher processing volume than previously to potentially enable a full ejaculate to be processed. They contain the new bio-compatible membranes, reformulated buffers and an altered fluid flow and electrical configuration that is even gentler on the sperm than the previous research-grade CS10 device but still provides efficient separation of the most viable sperm.

Memphasys is also applying the core bio-separation technology to assisted animal reproduction, most notably for horses and cattle. This work is being carried out in conjunction with Professor John Aitken and his research team at the University of Newcastle together with Minitube, Minitube GmbH ("Minitube"), the largest global provider of animal Artificial Reproductive Technologies (ART) products.

Memphasys' consultancy arrangement with the University of Melbourne Chemical and Biomolecular Engineering Department has led to the development of a new, biocompatible and readily manufactured hydrogel membrane for Felix. Memphasys is continuing with the consultancy with the development of new membranes and high value bio-separations.

During the year, the precast gels business sale was completed; Memphasys is no longer in the precast gels business.

**Litigation with Transocean**

Litigation with former corporate advisor and fund raiser, Transocean, remains unresolved. Memphasys terminated the Transocean mandate for cause and Transocean is seeking financial compensation as reported on 21 November 2016.

**Financial Performance**

Directors have contributed most of the funds for the Company to continue operating this financial year. Director contributions from Alison Coutts and Andrew Goodall were respectively $993,007 and $604,833 totalling $1,597,840.

Further funding was arranged through a $250,000 loan from Crescendas Projects, as announced on 2 March 2017.

Memphasys also obtained a $500,000 bond facility, through new corporate advisors, Platinum Road Pty Ltd, as announced on 4 April 2017. The bond allows shares to be issued against funds that are provided. The facility was drawn down to $244,872 at 30 June 2017 with $255,128 remaining for potential draw down post reporting date.

During the year, the Board continued to focus on value adding R&D activities and on streamlining operations. Overhead costs are now at the lowest point in the history of the Company.

The Company has only one source of revenue which is the tax refund on R&D activities. We expect an R&D tax refund of approximately $431,000 for FY2017.

Memphasys incurred a $1,677,665 loss from continuing operations (2016: loss of $2,174,721). General and Administrative expenses of $1,750,456 (2016: $1,659,341) was the largest expense category including legal fees for $835,000 (2016: $413,000). An approximate amount of $221,000 in legal fees was spent with William Partners Pty Ltd. Memphasys' non-executive director John Pereira is the principal of the firm. To avoid conflict of interest for Mr. Pereira, instructions were transmitted from Memphasys' Executive Chairman to a senior lawyer of the firm. Full disclosure was made through Letters of Engagements and a Costs Agreement.

Memphasys continued investing in high value-adding bio-separation projects which will not be revenue generating for at least the next 18 months. Capitalised expenditure on the two projects in the development stage, as allowed by accounting standards, is as follows:

- Felix which received an investment of $633,437 (2016: $717,001); and
- New membranes for the Felix device, which received an investment of $206,893 (2016: $213,450).

Memphasys also invested in researching other new membranes and new methods for high value biological separations, at a cost of $137,594 (2016: $178,573). As this project is still in the research stage, its costs have been booked as expenses and will not be capitalised as intangible assets until the project enters the development stage.

The other major contributor to the operating loss was the interest charges on finance costs of $129,674 (2016: $326,015). The significant reduction from the financial year 2016 was due to having ceased the accrual of interest payments on the SGD4.8m debt in August 2016.

Foreign exchange partially offset the operating losses contributing a gain of $259,556 (2016: losses of $156,425). The revaluation of the Australian dollar against the Singaporean dollar, which had a positive impact on the SGD4.8m debt, was the main reason for this gain.

## Board and Management

Memphasys appointed John Pereira to the Board as a non-executive director on 30 August 2016. Dr Robert Gilmour resigned from the board on 29 September 2016.

## Significant events post reporting date

As previously mentioned, Memphasys achieved settlement of the long running litigation with PrIME and Manukan, as reported on 27 July 2017.

All outstanding disputes with Manukan and PrIME were resolved through mediation. There are no further outstanding disputes with these parties.

Key terms of the settlement were reported as follows:

- Memphasys consented to Manukan's full rights and ownership over the Preference B Shares in PrIME which were the subject of the Call Option Deed.
- PrIME and Manukan will no longer pursue any claim against Memphasys in relation to the SGD4.8m debt.
- PrIME has agreed to make or discharge certain Memphasys' payment obligations to third parties up to a certain agreed amount.
- PrIME has agreed to ship certain machinery to Memphasys' premises in Sydney and to make payments related to outstanding obligations on said machinery.

With respect to the litigation with Transocean, the parties have agreed to a mediation in early September 2017. Whilst it is possible that a commercially sensible solution will be negotiated through that forum, Memphasys will continue to defend its rights should settlement not be achieved at that time.

## 2018 Outlook

The development of the next generation Felix device is expected to be key value driver for the company over the next 12 months. As reported post reporting date on 7 August 2017, testing of the current new re-usable cartridges demonstrated that cartridges efficiently separate viable sperm from ejaculate in healthy human males.

The ensuring development steps entail:

- The testing and optimisation of the reusable cartridges, initially with Professor John Aitken's research group at the University of Newcastle.
- Further testing using clinical ejaculate samples by our UNSW IVF clinical partner under the guidance of Professor John Aitken.

- Use of clinical test results to guide the development of the final fully disposable cartridge.
- Clinically testing and publishing results on the utility of the next generation prototype device containing the fully disposable cartridge by Key Opinion Leaders in leading global IVF centres.

Memphasys Limited

# Appendix 4E

## Preliminary final report

Name of entity

**Memphasys Limited**

ABN or equivalent company reference

33 120 047 556

Financial year ended ('current period')

30 JUNE 2017
(Comparisons to 30 June 2016)

## For announcement to the market

| | | | | $A'000 |
|---|---|---|---|---|
| **Revenue from continuing ordinary activities** | **Decreased** | **100%** | **to** | **0** |
| **Total income from continuing ordinary activities** | **Decreased** | **45%** | **to** | **81** |
| **Loss from continuing operations** | **Decreased** | **23%** | **to** | **(1,678)** |
| **Loss from ordinary activities after tax attributable to members** | **Decreased** | **23%** | **to** | **(1,779)** |
| **Net Loss for the period attributable to members** | **Decreased** | **23%** | **to** | **(1,779)** |

| **Dividends (distributions)** | Amount per security | Franked amount per security |
|---|---|---|
| Final dividend | Nil | Nil |
| Previous corresponding year | Nil | Nil |

Record date for determining entitlements to the dividend, N/A

For a brief explanation of any of the figures reported above see notes below and also refer to the attached market announcement.

## 1. Consolidated Statement of Profit or Loss and Other Comprehensive Income

| Continuing operations | For the year ended 30 June 2017 $ | For the year ended 30 June 2016 $ |
|---|---|---|
| 1.1 **Revenue** | | |
| Revenue from sales or services | **-** | 63,960 |
| **Gross profit** | **-** | 63,960 |
| Grant income | **64,378** | 79,453 |
| Finance income | **2,160** | 2,220 |
| Gain on disposal of assets | **13,965** | - |
| General & administration | **(1,750,456)** | (1,659,341) |
| Research & development | **(137,594)** | (178,573) |
| Finance cost expense | **(129,674)** | (326,015) |
| Foreign exchange gain / (loss) | **259,556** | (156,425) |
| **1.2 Loss before income tax** | **(1,677,665)** | (2,174,721) |
| **1.3** Income tax | - | - |
| **1.4 Loss after tax from continuing operations** | **(1,677,665)** | (2,174,721) |
| **1.5 Discontinued operations** | | |
| Loss from discontinued operations net of tax | **(100,993)** | (130,803) |
| **1.6 Net loss for the year** | **(1,778,658)** | (2,305,524) |
| **1.7 Net loss attributable to members of parent** | **(1,778,658)** | (2,305,524) |
| **1.8 Other comprehensive income / (expense)** | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Exchange translation difference | **-** | (73,559) |
| **Total other comprehensive income / (expense) for the year** | **-** | (73,559) |
| **1.9 Total comprehensive expense for the year** | **(1,778,658)** | (2,379,083) |

## Consolidated accumulated losses

| | | 30 June 2017<br>$ | 30 June 2016<br>$ |
|---|---|---|---|
| 1.10 | Accumulated losses at the beginning of the financial year | **(35,358,294)** | (33,052,770) |
| 1.11 | Net loss attributable to members (*item 1.7*) | **(1,778,658)** | (2,305,524) |
| **1.12** | **Accumulated losses at end of the financial year** | **(37,136,952)** | (35,358,294) |

## 2. Consolidated Statement of Financial Position

| | | As at 30 June 2017 $ | As at 30 June 2016 $ |
|---|---|---|---|
| | **Current assets** | | |
| 2.1 | Cash and cash equivalents | 2,349 | 19,003 |
| 2.2 | Trade and other receivables | 119,002 | 277,266 |
| 2.3 | Other current assets | 424,108 | 528,230 |
| 2.4 | Financial assets | 3,824,888 | - |
| **2.5** | **Total current assets** | **4,370,347** | 824,499 |
| | **Non-current assets** | | |
| 2.6 | Property, plant and equipment | 41,281 | 61,977 |
| 2.7 | Intangible assets | 2,956,295 | 2,483,114 |
| 2.8 | Financial assets | - | 3,824,888 |
| **2.9** | **Total non-current assets** | **2,997,576** | 6,369,979 |
| **2.10** | **Total assets** | **7,367,923** | 7,194,478 |
| | **Current liabilities** | | |
| 2.11 | Trade & other payables | 667,000 | 753,536 |
| 2.12 | Interest bearing liabilities | 5,714,322 | 4,813,959 |
| 2.13 | Non-interest bearing liabilities | 26,334 | 26,334 |
| 2.14 | Lease liabilities | 4,260 | 3,162 |
| 2.15 | Tax liabilities | (2,780) | (20,898) |
| 2.16 | Short term provisions | 96,647 | 71,788 |
| **2.17** | **Total current liabilities** | **6,505,783** | 5,647,881 |
| | **Non-current liabilities** | | |
| 2.18 | Lease liabilities | 9,391 | 13,652 |
| 2.19 | Interest bearing liabilities | 1,011,544 | 29,357 |
| 2.20 | Long term provisions | 22,212 | 25,937 |
| **2.21** | **Total non-current liabilities** | **1,043,147** | 68,946 |
| **2.22** | **Total liabilities** | **7,548,930** | 5,716,827 |
| **2.23** | **Net (liabilities) / assets** | **(181,007)** | 1,477,651 |
| | **Equity** | | |
| 2.24 | Issued capital | 36,019,885 | 35,909,885 |
| 2.25 | Reserves | 936,060 | 926,060 |
| 2.26 | Accumulated losses | (37,136,952) | (35,358,294) |
| **2.27** | **Total equity / (deficiency)** | **(181,007)** | 1,477,651 |

## 3. Consolidated Statement of Cash Flow

| | | For the year ended 30 June 2017 $ | For the year ended 30 June 2016 $ |
|---|---|---|---|
| | **Cash flows from operating activities** | | |
| 3.1 | Payments to suppliers and employees | (1,721,336) | (1,553,125) |
| 3.2 | Government grants | 497,355 | 297,291 |
| 3.3 | Finance costs | (4,614) | (14,746) |
| **3.4** | **Net cash flows used in operating activities** | **(1,228,595)** | (1,270,580) |
| | **Cash flows from investing activities** | | |
| 3.5 | Interest receipts | 1,211 | 2,223 |
| 3.6 | Proceeds from sale of assets | 13,965 | - |
| 3.7 | Proceeds from sale of business | 118,503 | 48,036 |
| 3.8 | Payment for purchases of property, plant and equipment | - | (5,081) |
| 3.9 | Payment for purchases of other non-current assets | (664,733) | (615,488) |
| 3.10 | Receipts (payments) relating to discontinued operations | (90,379) | (170,249) |
| **3.11** | **Net cash flows from (used in) investing activities** | **(621,433)** | (740,559) |
| | **Cash flows from financing activities** | | |
| 3.12 | Proceeds from issues of securities | 110,000 | 1,538,775 |
| 3.13 | Share issue costs | (107,002) | (82,771) |
| 3.14 | Proceeds from third party loans | 350,000 | - |
| 3.15 | Repayment of third party loans | (110,000) | (250,073) |
| 3.16 | Proceeds from related party borrowings | 1,671,376 | 664,926 |
| 3.17 | Repayment of related party borrowings | (81,000) | (15,500) |
| **3.18** | **Net cash flows from financing activities** | **1,833,374** | 1,855,357 |
| **3.19** | **Net (decrease)/increase in cash held** | **(16,654)** | (155,782) |
| 3.20 | Cash at beginning of year | 19,003 | 174,785 |
| **3.21** | **Cash and cash equivalents at end of year** *(see reconciliation of cash)* | **2,349** | 19,003 |

| ***Discontinued activities*** | 30 June 2017 $ | 30 June 2016 $ |
|---|---|---|
| Operating activities | (90,379) | (170,249) |
| Investing activities | - | - |
| Financing activities | - | - |
| **Total cash flows relating to discontinued activities** | **(90,379)** | (170,249) |

## 4. Consolidated Statement of Changes in Equity

| | Issued capital<br>$ | Share options reserve<br>$ | Accumulated losses<br>$ | Total equity<br>$ |
|---|---|---|---|---|
| **Balance at 1 July 2016** | 35,909,885 | 926,060 | (35,358,294) | 1,477,651 |
| **Movement** | | | | |
| Loss for the year | - | - | (1,778,658) | (1,778,658) |
| **Total comprehensive income for the year** | - | - | (1,778,658) | (1,778,658) |
| Issue of share capital | 110,000 | - | - | 110,000 |
| Share options issued | - | 10,000 | - | 10,000 |
| **Balance at 30 June 2017** | **36,019,885** | **936,060** | **(37,136,952)** | **(181,007)** |

| | Issued capital<br>$ | Foreign currency translation reserve<br>$ | Share options reserve<br>$ | Accumulated losses<br>$ | Total equity<br>$ |
|---|---|---|---|---|---|
| **Balance at 1 July 2015** | 33,582,742 | 73,559 | 143,060 | (33,052,770) | 746,591 |
| **Movement** | | | | | |
| Loss for the year | - | - | - | (2,305,524) | (2,305,524) |
| Currency translation | - | (73,559) | - | - | (73,559) |
| **Total comprehensive income for the year** | - | (73,559) | - | (2,305,524) | (2,379,083) |
| Issue of share capital | 2,915,406 | - | - | - | 2,915,406 |
| Transaction costs on share issue | (588,263) | - | - | - | (588,263) |
| Share options issued | - | - | 783,000 | - | 987,000 |
| **Balance at 30 June 2016** | **35,909,885** | **-** | **926,060** | **(35,358,294)** | **1,477,651** |

## 5. Reconciliation of cash

| Reconciliation of cash at the end of the year (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | 30 June 2017<br>$ | 30 June 2016<br>$ |
|---|---|---|
| 5.1 Cash on hand and at bank | 2,349 | 19,003 |
| **5.2 Total cash at end of year** *(item 3.21)* | **2,349** | 19,003 |

## 6. Earnings per security (EPS)

| | | 30 June 2017 | 30 June 2016 |
|---|---|---|---|
| 6.1 | Basic losses per share | (0.30 cents) | (0.69 cents) |
| 6.2 | Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 584,514,286 | 336,547,516 |
| 6.3 | Diluted losses per share | (0.30 cents) | (0.69 cents) |

## 7. NTA backing

| | | 30 June 2017 | 30 June 2016 |
|---|---|---|---|
| 7.1 | NTA backing per ordinary security | $(0.005) | $(0.002) |

## 8. Matters subsequent to the end of the financial year

The following events occurred subsequent to end of the financial year:

- On 3 July 2017 the Company announced that Alison Coutts agreed to extend the line of credit by a further $200,000.
- On 13 July 2017 the Company announced that the first two cartridges for the next generation "Felix" device have met the first performance requirements after internal testing by Memphasys.
- On 17 July 2017 the Company issued 32,941,177 ordinary shares at $0.00085 per share to Bridge Road Capital, converting $28,000 drawdown against the Platinum Bond facility.
- On 20 July 2017 the Company lodged the R&D tax claim for an amount of $431,529 which was approved by AusIndustry on 31 July 2017 and is expected to be received from the ATO by mid September 2017.
- On 27 July 2017 the Company announced that it has successfully concluded mediation with Pulau Manukan Ventures Labuan Ltd ("Manukan") and PrIME Biologics Private Limited ("PrIME") and has reached full settlement on all outstanding disputes. Manukan and PrIME will no longer pursue any claim against Memphasys in relation to the SGD4.8m debt.

## Annual General Meeting

The annual general meeting will be held as follows:

| | |
|---|---|
| Place | 30 Richmond Road, Homebush West, NSW 2140 |
| Date | TBC |
| Time | TBC |
| Approximate date the annual report will be available | Monday 9th October 2017 |

# Compliance statement

1 The report has been prepared in accordance with the Corporations Act 2001, the recognition and measurement criteria of Accounting Standards and Urgent Issues Group Interpretations, and complies with other requirements of the law. Accounting Standards, include Australian equivalents to International Financial Reporting Standards “AIFRS”. Compliance with AIFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards “IFRS”.

2 This report, and the accounts upon which the report is based, use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed.

4 This report is based on accounts that are in the process of being audited. Details of any qualifications will follow immediately they are available.

6 The entity has a formally constituted Audit Committee.

Signed:

Name: Alison Coutts
Chairman

Date: 31 August 2017